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Your **Wealth** Winter Q1 2022

Great expectations as a new year dawns

We could be forgiven for focusing on life's trials and tribulations heading into 2022, given the challenges that we've faced over the last couple of years. Despite inflation-related concerns, new COVID variants and supply chain disruption, which may be disconcerting for investors, there are indications that the coming year will present opportunities as well as risk, as we hopefully venture towards post-pandemic life.

International soothsayer, the International Monetary Fund (IMF) predicts a continuation of the global recovery in 2022, forecasting growth of 4.9% for the world economy. Its analysis did, however, acknowledge that the level of uncertainty encircling prospects has intensified with policy choices becoming increasingly complex.

Taking steps to inflation-proof your wealth

Rising inflation and global supply chain issues have undoubtedly generated a policy dilemma for central banks. These dual concerns have heightened the need for investors to employ considered strategic thinking, enabling them to reposition their portfolios in order to take advantage of growth opportunities, while ensuring their wealth is inflation-proofed.

Investment scam-savvy

As the year progresses, although the spectre of rising inflation is expected to see central banks tighten policy, deposit-based savings rates are forecast to remain at historically low levels. Such small returns have prompted many savers to move their money into investments, with research suggesting over half of all adults have done so. This shift has raised concerns that unrealistically high return expectations could leave some investors vulnerable to investment scams.

Take control

Although 2022 is likely to present ongoing challenges, the key to successful investing remains adopting a carefully considered strategy based on sound financial planning principles. Attractive investment opportunities will undoubtedly be available as the year progresses. With our help and careful repositioning of your portfolio, you should be able to make the most of these as and when they arise.

Climate disclosures top corporate agendas in 2022

Regulators have been urged by the IMF to do more to prevent financial companies from making misleading claims concerning their environmental credentials – *'Proper regulatory oversight and verification mechanisms are essential to avoid greenwashing.'* To achieve the expansion needed to reach the target of reducing worldwide carbon emissions to net zero by mid-century, will require a proper understanding by investors how their money is used.

From April the UK's biggest companies will be required to make climate-related financial disclosures. Firms with a turnover in excess of £500m and at least 500 employees are expected to publish the climate-related risks they face. With the UK the first G20 country to make this compulsory, John Glen, Economic Secretary to the Treasury commented, *"These requirements will not only help tackle greenwashing but also enable investors and businesses to align their long-term strategies with the UK's net-zero commitments."*

The requirements for disclosure will be aligned to the Task Force on Climate-Related Financial Disclosures, backed by over 1,000 global financial institutions, and responsible for over $190trn of assets. Companies will need to *"focus on the effects of climate change on their business"* and communicate to investors how these are being managed, according to Chris Cummings, Chief Executive of the Investment Association.

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Your 2022 playlist

Research studies over the years have reinforced the idea that equity prices are not solely driven by analysis of a company's prospects but also by outside factors which can impact investor mood. Correlation has been found between improved stock market performance on sunny days or poor performance after a country loses a vital football match, for example.

A novel measure of investor sentiment has been discovered by a recent study, which apparently captures actual sentiment rather than shocks to sentiment[1]. A significant correlation has been determined across 40 national stock markets between weekly equity returns and the emotional content of that week's top 200 songs on Spotify. The findings suggest that stock markets perform better when a country is listening to happier songs – *'In our main findings, we document a positive and significant relation between music sentiment and contemporaneous market returns, controlling for world market returns, seasonalities and macroeconomic variables. Music sentiment also predicts increases in net mutual fund flows and absolute sentiment precedes a rise in stock market volatility. Our study provides evidence that the actual sentiment of a country's citizens significantly affects asset prices.'*

Whatever's on your playlist this year, you can rely on us to take the emotion out of your investment decisions.

Risk-on, risk-off

New research[2] has shown that affluent to ultra-high-net-worth UK investors are more conservative when compared with their international counterparts, as 54% of UK respondents rate themselves as conservative in their approach to risk, with the lowest percentage of any nation surveyed (10%) saying they adopt an aggressive approach. In contrast, nearly half of respondents from China rated themselves aggressive in their approach to risk, with just 19% conservative. Potentially underpinning the lower risk, long-term mindset, the primary reason for 66% of UK respondents for saving and investing is for their retirement, with 35% citing future healthcare costs and 17% entrepreneurial activities.

£810m tax relief unclaimed

Recently released data[3] has highlighted that during the 2018/19 tax year, an estimated £810m in tax relief was unclaimed by over 1.5 million of the UK's highest earners. Higher rate taxpayers benefit from 40% tax relief, but eight in ten failed to use their Self-Assessment tax return to claim it. Similarly, 53% of additional rate taxpayers failed to claim the 45% tax relief for which they are eligible.

[1]The London Business School, 2021, [2]Avaloq, 2021, [3]Pension Bee, 2021

'Special dividends' boost investor income

In Q3 2021, UK dividends reached £34.9bn, an impressive 89% year-on-year rise[4]. Part of this rise can be attributed to large one-off special dividends, a trend expected to continue in Q4. Excluding special dividends, the underlying total in Q3 was £27.7bn, a 52.6% increase. In context, this year-on-year rebound, is comparable with a pandemic-stricken Q3 2020, in which dividends halved.

Managing Director of Corporate Markets at Link, Ian Stokes commented on the findings, *"The good news is that we have consistently seen companies deliver more in dividends than we thought likely at the beginning of the year... Companies were progressively less impacted by each lockdown and many of them took action to bolster their balance sheets during 2020... Dividend firepower is now much stronger as a result."*

Referring to the dominance of special dividends, he added, *"The boom in special dividends reflects how some companies are making catch-up payments, some are capitalising on very strong demand, and others are seizing the moment to sell assets at a time of high prices and numerous cash-rich potential buyers."*

Although good news for income investors, dividend growth may be driven by sectors which might not perform as well in the future, which highlights the importance of diversifying across different sectors.

[4]Link Group, 2021

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Time to consider external factors

The Autumn Budget may have left a sense that nothing much had changed in the realm of personal financial planning, as no major changes to Capital Gains Tax, Inheritance Tax, Income Tax or pensions, were announced. Despite this, a prime consideration needs to be how external factors such as frozen rates and higher inflation, could impact your finances and what action you need to take before the end of the tax year to utilise any exemptions and allowances.

Your pension

The Annual Allowance remains at £40,000 and the Lifetime Allowance remains at £1,073,100. As these allowances haven't increased with inflation, it effectively means those saving to the maximum extent possible with tax concessions can save less in real terms each year.

Individual Savings Accounts (ISAs)

The annual ISA limit has been frozen at £20,000 for five years. If the allowance had increased with inflation every year since 2017, it would stand at £21,440 today, sheltering an additional £1,440 from the taxman. JISAs celebrated their tenth birthday in November – the allowance remains at £9,000.

Inheritance Tax (IHT)

HM Revenue and Customs (HMRC) data for April to September 2021 shows that IHT receipts totalled £3.1bn, £0.7bn higher than the same period in 2020. With the nil rate band and residence nil rate band frozen until April 2026 at £325,000 and £175,000 respectively, don't overlook the importance of effective estate planning.

Dividend Tax

Last September, the government revealed that it would increase Dividend Tax by 1.25 percentage points from 6 April 2022 to help fund health and social care. This means investors will have to pay more on any income from shares held outside ISAs and above the £2,000 Dividend Allowance.

Variables

It's time to tune in to all the variables at play, affecting your finances; frozen allowances, inflation, interest rates and taxation. Talk to us for help with your individual circumstances.

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The 'Late Financial Bloomer' faces a complex retirement journey

A new group of consumers, dubbed the 'Late Financial Bloomers' are set to change the face of retirement[5]. An array of socioeconomic factors, such as later home ownership, are the primary drivers behind this shift.

Divorce and marriage trends are also key contributors, as is later childbirth. First marriages now take place four years later than they did 20 years ago; similarly, divorce rates peak 20 years later than they did two decades previously. With more women over 40 now giving birth each year than those under 20, a growing proportion of the population will be supporting children through education later in life, diverting attention from retirement planning.

Currently, accounting for just 6% of retirees, the number of Late Financial Bloomers is set to rise considerably over the next 15 years or so. The trend towards later financial security means an increasing number of people will face complex retirement journeys, highlighting the requirement to plan ahead.

[5]Canada Life, 2021

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Preserving your retirement from the risk of mental decline

Many of us can now look forward to a longer retirement, due to increased life expectancy, however this unfortunately comes at a cost. The prevalence of age-related cognitive decline is on the rise, which could leave us vulnerable to costly financial errors.

There are nearly 885,000 people living with dementia in the UK[6], with estimates suggesting that between 5% and 20% of over-65s suffer from mild cognitive impairment (MCI). This is a condition in which someone has minor problems with cognition, such as thought process and memory.

Planning for every eventuality

An essential element of preparing for your retirement should involve planning for the possibility of cognitive decline. Despite many people still having the capacity to make decisions and live independently, MCI has been linked in studies to poorer financial capacity and a greater susceptibility to scams.

It's all about timing

In a recent survey[7], over 80% of investors felt the ideal time to transfer financial control would be *'sometime after they had begun to experience some cognitive decline but before they became completely incapable.'* Respondents thought there was a higher than one-in-three chance of a mistimed transfer, partly attributable to a reluctance to relinquish control, which highlights the need to plan sooner rather than later, so that any future transfer takes place on your terms.

Make time to talk

Preparing for the possibility of cognitive decline requires careful planning, not only having legal documents in place but also starting conversations with your family and those you trust about your finances and objectives, in advance of its possible onset. This fosters transparency and, with everything out in the open, close connections are more likely to notice if you begin making decisions about your money that don't align with your objectives.

We can assist you with planning and in starting these conversations well in advance, enabling you to better plan for the future, giving you a greater sense of control and ownership of your plans.

[6]Alzheimers Society, 2019, [7]Vanguard, 2021

If you would like any advice or information on any of the areas highlighted in this newsletter, please **get in touch**.

Gen up to protect yourself from pension scams

With pension scam losses totalling millions each year, good news came in November, when new regulations came into force to protect pension savers and stop suspicious scam transfers.

From 30 November 2021, pension trustees and scheme managers received new powers to intervene. Previously pension providers were not allowed to refuse to carry out a transfer where the saver has the right to do so, even if they were suspicious, but the new regulations will enable trustees to prevent a transfer request if they see evidence of 'red flags.'

Knowledge is power

The Financial Conduct Authority (FCA) has reaffirmed its commitment to tackling scams in order to ensure the long-term health of the pensions market. In a speech to delegates at the Pensions and Lifetime Savings Association, the FCA's Executive Director of Markets Sarah Pritchard said steps have been taken to stop scams reaching consumers, *"We want people to be better protected from the risks of scams and know how to protect themselves against them. Our ScamSmart campaign... gives knowledge and tools to help people protect themselves from scams."*

On-the-ball

We can all take simple steps to protect ourselves against potential scams, including:

- Double check who you're dealing with
- Don't give out personal information you wouldn't share with a stranger
- Don't feel pressurised into making quick decisions.

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